

Message Text

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TO AMEMBASSY MADRID IMMEDIATE

AMEMBASSY LISBON

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E.O. 11652: XGDS-1

TAGS: EFIN, EAID, PO

SUBJECT: ASSESSMENT OF PORTUGUESE ECONOMIC SITUATIONFOR
NSC

1. QUOTED BELOFOR YOUR INFORMATION IS TEXT OF EXECUTIVE
SUMMARY OF DEPARTMENT ASSESSMENT OF PORTUGUESE ECONOMIC
SITUATION PREPARED IN RESPONSE TO JANUARY 5 NSC REQUEST.
FULL TEXT OF ASSESSMENT BEING AIR POUCHED LISBON.

2. QUOTE: PORTUGAL'S DRAMATIC POLITTICAL TURNAROUND SINCE
LAST SUMMER IS THREATENED BY ADVERSE ECONOMIC CONDITIONS,
INCLUDING UNEMPLOYMENT, INFLATION AND SHORTAGE OF LIQUID
FOREIGN EXCHANGE RESERVES. IF ECONOMIC CTRCUMSTANCES DO
NOT OFFER THE PROSPECT OF IMPROVEMENT BY THE APRTL
ELECTTIONS, THE PRESENT MODERATE GOVERNMENT WILL UNDOUBTED-
LY SUFFER. U.S. INTERESTS IN THE SITUATION INCLUDE OUR
CONTINUED ACCESS TO THE AZORES BASES, NATO INTEGRITY,
IBERIAN POLITICAL STABILITY AND MAINTENANCE OF AN OPEN
ECONOMY AND SOCIETY IN PORTUGAL.

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IT IS ANTICIPATED THAT THE PORTUGUESE WILL HAVE TO

DEVALUE THE ESCUDO EARLY IN 1976, CONTINUE GOLD SALES
OVER THE COURSE OF THE YEAR, TAKE NECESSARY MEASURES TO
CURB WAGES AND REVIVE PRODUCTION, AND BORROW FURTHER

SUBSTANTIAL AMOUNTS ABROAD. OUR ANALYSIS OF THE PORTUGUESE
BALANCE OF PAYMENTS INDICATES THAT UNDER FAVORABLE CON-
DITIONS THEY MAY BE ABLE TO SQUEAK THROUGH THE FIRST HALF
OF 1976 WITHOUT ACCESS TO MORE THAN THE EXISTING SOURCES
OF EXTERNAL BORROWING SUPPLEMENTED BY GOLD SALES AND
STEPPED UP AID DTSBURSEMENTS, PROVIDED THE BANK FOR
INTERNATIONAL SETTLEMENTS ROLLS OVER A \$250 MILLION LOAN
AND THE FEDERAL REPUBLIC OF GERMANY EXTENDS A NEW LOAN
FOR THE SAME AMOUNT. BUT GIVEN THE POLITICAL/ECONOMIC
UNCERTAINTIES, FINANCING NEEDS MAY BE CONSIDERABLE
GREATER AND WE SHOULD BE PREPARED TO FACE THIS CONTINGENCY.

AS A MINIMUM, DURING THE NEAR-TERM, THE UNITED
STATES SHOULD SUPPORT PORTUGUESE LOANS FROM THE INTER-
NATIONAL MONETARY FUND, ENCOURAGE BILATERAL CREDIT
ARRANGEMENTS BETWEEN THE PORTUGUESE AND THE FEDERAL
REPUBLIC OF GERMANY AND WHERE FEASIBLE FACILITATE THE
ROLLOVER OF THE EXISTING LOAN BY THE BANK FOR INTER-
NATIONAL SETTLEMENTS. WE SHOULD TRY TO MAKE QUICK
DISBURSEMENTS WHERE POSSIBLE IN OUR BILATERAL A.I.D.
PROGRAMS AND ENCOURAGE OTHERS TO DO LIKEWISE. PROVIDING
THE PORTUGUESE AGREE, WE SHOULD ENCOURAGE THE ESTABLISH-
MENT OF A MULTILATERAL MECHANISM DESIGNED TO REVIEW THE
PORTUGUESE ECONOMIC SITUATION (INCLUDING POSSIBLE
ALTERNATIVE SOLUTIONS) AND TO PROMOTE COORDINATION
BETWEEN FOREIGN DONORS. A CONSULTATIVE GROUP COULD BE
FORMED IN THE OECD BY KEY COUNTRIES. AN OECD GROUP HAS
THE DISTINCT ADVANTAGE OF DEMONSTRATING POLITICAL
SUPPORT FOR PORTUGUESE ECONOMIC STABILIZATION BY WESTERN
EUROPE AND THE U.S. ANOTHER POSSIBILITY WOULD BE TO FORM
AN AID GROUP UNDER THE AUSPICES OF THE IBRD. IT WOULD
SEEM DESIRABLE FOR THE PORTUGUESE TO TAKE THE LEAD AND
CALL FOR THE FORMATION OF SUCH A GROUP.

IN ANTICIPATION THAT THE BALANCE OF PAYMENTS SITUATION
MAY DETERIORATE MORE SUBSTANTIALLY, THE UNITED STATES
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SHOULD BE PREPARED TO CONSIDER FURTHER MEASURES. THE
QUICKEST-ACTING MEANS OF HELP IN FIRST-HALF 1976 WOULD
SEEM TO BE THROUGH CREDITS BY THE COMMODITY CREDIT
CORPORATION. A SPECIAL AID APPROPRIATION OR AN INCREASED
PL-480 PROGRAM WOULD BE DESIRABLE IF PORTUGAL CANNOT MEET
ITS SHORT-TERM NEEDS FROM OTHER SOURCES, BUT EITHER WOULD
ENCOUNTER SERIOUS BUDGETARY AND LEGISLATIVE OBSTACLES.
ADDITIONAL EXIMBANK CREDITS AND PL-480 WOULD HELP AT

LEAST IN SECOND-HALF 1976. HOEVER, THE ANALYSIS CONTATN-
ED IN THIS PAPER SHOWS THAT PORTUGAL'S OVERALL BALANCE
OF PAYMENTS DEFICIT COULD RANGE ANYWHERE BETWEEN \$1.0 AND

\$1.8 BILLION IN 1976. THUS, WHILE ADDITIONAL U.S.
ASSISTANCE ILL BE HELPFUL IN A POLITICAL SPNSE, THE
AMOUNTS WHICH ILL BE POSSIBLE TO UNDERTAKE IN THE NEAR
FUTURE WILL NOT BE LARGE ENOUGH ALONE TO OFFSET A MAJOR
DETERIORATION IN THE PORTUGUESE BALANCE OF PAYMENTS
POSITION.

OVER THE LONGER TERM,WE CAN EXPECT THAT PORTUGAL
IS LIKELY TO FACE CONTINUED FINANCING NEEDS FOR SOME
YEARS TO COME, ALTHOUGH ON A DECLINING BASIS. MULTILATERAL
ASSISTANCE THROUGH THE WORLD BANK, THE EUROPEAN
INVESTMENT BANK AND THE EFTA INDUSTRIALIZATION FUND WILL
BE IMPORTANT, IN ADDITION TO PILATERAL ASSISTANCE PROGRAMS
SUCH AS OUR OWN. END QUOTE SISCO

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